MAKHUDUTHAMAGA MUNICIPALITY

MAKHUDUTHAMAGA LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

MAKHUDUTHAMAGA MUNICIPALITY

MUNICIPALITY

Private Bag x 434
JANE FURSE
1085

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Enq: Malekana M.A.

31 August 2010

To: Limpopo Provincial Treasury

Att: Mr. Maduka

Sir

RE: SUBMISSION OF ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

1. The above matter bears reference.

2. In terms of MFMA, 126(1), the accounting officer of a municipality:

   - Must prepare the annual financial statements of the municipality and within two months after the end of the financial year, to which those statements relate, submit the statements to the auditor general for auditing.

3. Kindly receive the annual financial statements of Makhuduthamaga Municipality as required in terms of the above said legislation.

31/08/2010

DIALE D.S
CHIEF FINANCIAL OFFICER

RECEIVED BY: (LPT) MASEJE MOHABELENG .... NAME (PRINT)

.... SIGNATURE

31/08/2010 .... DATE

General Information

Legal form of entity	Local municipality
Mayor	Cllr Queen Mokhabela
Councillors	Cllr Mampane Abel Cllr Vilakazi Phillip Cllr Mohlala Maisela Rinah Cllr Matlala Alfred Cllr Lentswane Ivy Cllr Mashengwaneng Mankwana Cllr Makgoga Hilda Cllr Mphelane Judy Cllr Monama Rodgers
Grading of local authority	Low capacity municipality
Accounting Officer	MJ Thamaga
Chief Finance Officer (CFO)	DS. Diale
Postal address	Private Bag x 434 Jane Furse 1085
Bankers	ABSA Bank Limited
Auditors	Auditor General

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

The accounting officers are required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officers to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practices (GRAP).

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officers acknowledge that they are ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officers to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officers are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officers have reviewed the municipality's cash flow forecast for the year to 30 June 2011 and, in the light of this review and the current financial position, they are satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements set out on pages 4 to 44, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2010 and were signed on its behalf by:

31/08/2010

ME Moropa
Acting Municipal Manager

31 August 2010

Accounting Officer's Report

The accounting officers submit their report for the year ended 30 June 2010.

1. Review of activities

Main business and operations

Net surplus of the municipality was R 44,824,181 (2009: surplus R 60,901,940).

2. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

3. Subsequent events

The accounting officers are not aware of any matter or circumstance arising since the end of the financial year.

4. Accounting policies

The annual financial statements prepared in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

5. Accounting Officer

The accounting officers of the municipality during the year and to the date of this report are as follows:

Name	Changes
MJ Thamaga	Resigned 31 July 2010
ME Moropa	Appointed 01 August 2010

6. Bankers

The municipality banks primarily with ABSA Bank Limited.

7. Auditors

The Auditor General will continue in office for the next financial period.

Statement of Financial Position

Figures in Rand	Note(s)	2010	2009
Assets			
Current Assets			
Inventories	5	114,220	66,260
Trade and other receivables from exchange transactions	6	3,474,161	4,726,979
VAT receivable	7	11,017,602	13,195,908
Consumer debtors	8	14,133,485	-
Cash and cash equivalents	9	65,178,257	52,357,662
		93,917,725	**70,346,809**
Non-Current Assets			
Property, plant and equipment	3	162,426,837	84,998,985
Total Assets		**256,344,562**	**155,345,794**
Liabilities			
Current Liabilities			
Trade and other payables from exchange transactions	11	17,892,056	3,583,988
Unspent conditional grants and receipts	10	13,705,571	-
		31,597,627	**3,583,988**
Total Liabilities		**31,597,627**	**3,583,988**
Net Assets		**224,746,935**	**151,761,806**
Net Assets			
Accumulated surplus		224,746,935	151,761,806

Makhuduthamaga local municipality

Annual Financial Statements for the year ended 30 June 2010

Statement of Financial Performance

Figures in Rand	Note(s)	2010	2009
Revenue			
Administration and management fees received		5,376,619	3,257,591
Fines		-	3,765,985
Government grants & subsidies	14	114,621,740	81,179,552
Interest received - investment	21	2,193,884	8,574,693
Var recovery		566,103	15,743,131
Property rates	13	17,956,005	-
Rental of facilities and equipment		-	7,339
Total Revenue		**140,714,351**	**112,528,291**
Expenditure			
Administration		(5,140,509)	(970,761)
Contracted services	24	(2,790,099)	(239,503)
Debt impairment	20	(2,566,229)	-
Depreciation and amortisation	22	(10,332,998)	(10,004,717)
General Expenses	16	(24,628,150)	(15,288,361)
Grants and subsidies paid	25	(3,468,386)	(1,140,850)
Personnel	18	(16,503,437)	(9,545,026)
Remuneration of councillors	19	(13,635,664)	(10,285,031)
Repairs and maintenance		(16,869,564)	(4,186,244)
Total Expenditure		**(95,935,036)**	**(51,660,493)**
Surplus for the year		**44,779,315**	60,867,798

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2009	**90,859,866**	**90,859,866**
Changes in net assets		
Surplus for the year	60,901,940	60,901,940
Total changes	60,901,940	60,901,940
Balance at 01 July 2009	**179,922,754**	**179,922,754**
Changes in net assets		
Surplus for the year	44,824,181	44,824,181
Total changes	44,824,181	44,824,181
Balance at 30 June 2010	**224,746,935**	**224,746,935**

Note(s)

Cash Flow Statement

Figures in Rand	Note(s)	2010	2009
Cash flows from operating activities			
Receipts			
Sale of goods and services		17,956,005	-
Grants		114,621,740	81,179,552
Interest income		2,193,884	8,574,693
Other receipts		5,942,692	22,774,046
		140,714,321	112,528,291
Payments			
Employee costs		(16,458,571)	(15,288,361)
Suppliers		(23,674,018)	(37,830,221)
		(40,132,589)	(53,118,582)
Net cash flows from operating activities	26	**100,581,732**	**59,409,709**
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(87,761,137)	(7,052,046)
Net increase/(decrease) in cash and cash equivalents		**12,820,595**	**52,357,663**
Cash and cash equivalents at the beginning of the year		52,357,662	-
Cash and cash equivalents at the end of the year	9	**65,178,257**	**52,357,663**

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

These accounting policies are consistent with the previous period, except for the changes set out in note Changes in accounting policy

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. .

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note - Provisions.

Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost / (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note .

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.2 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, and only when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the enterprise, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired at no cost or for a nominal cost, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

The fair value of investment properties has not been reviewed as the municipality have applied the transitional provisions as set out in Directive 4. The municipality is in the process of determining the the fair value of all its investment properties. A service provider was acquired to assist with the process.

Transitional provision

The municipality changed its accounting policy for investment property in 2010. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

Accounting Policies

1.2 Investment property (continued)

According to the transitional provision, the municipality is not required to measure investment property for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Investment property. Investment property has accordingly been recognised at provisional amounts, as disclosed in . The transitional provision expires on 30 June 2012.

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where investment property was acquired through a transfer of functions, the municipality is not required to measure that investment property for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2010 and investment property has accordingly been recognised at provisional amounts, as disclosed in .

Until such time as the measurement period expires and investment property is recognised and measured in accordance with the requirements of the Standard of GRAP on Investment property, the municipality need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Investment property implies that any associated presentation and disclosure requirements need not be complied with for investment property not measured in accordance with the requirements of the Standard of GRAP on Investment property.

1.3 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

1.3 Property, plant and equipment (continued)

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Land	Indefinite
Buildings	25 years
Plant and machinery	3 - 10 years
Furniture and fixtures	4 - 6 years
Motor vehicles	5 - 7 years
Office equipment	3 - 4 years
IT equipment	1 - 3 years
Infrastructure	5 - 25 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

Transitional provision

The municipality changed its accounting policy for property, plant and equipment in 2010. The change in accounting policy was made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to measure property, plant and equipment for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Property, plant and equipment. Property, plant and equipment has accordingly been recognised at provisional amounts, as disclosed in 3. The transitional provision expires on 30 June 2012.

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where property, plant and equipment was acquired through a transfer of functions, the municipality is not required to measure that property, plant and equipment for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2010 and property, plant and equipment has accordingly been recognised at provisional amounts, as disclosed in 3.

Until such time as the measurement period expires and property, plant and equipment is recognised and measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment, the municipality need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),

Accounting Policies

1.3 Property, plant and equipment (continued)

- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Property, plant and equipment implies that any associated presentation and disclosure requirements need not be complied with for property, plant and equipment not measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment.

1.4 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

- subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount, and any impairment loss is recognised in surplus or deficit.

If the related asset is measured using the revaluation model:

- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability (subject to (b)) is credited to other comprehensive income and accumulated in the revaluation surplus in equity, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
  - an increase in the liability is recognised in surplus or deficit, except that it is debited to other comprehensive income as a decrease to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and to other comprehensive income under (a). If a revaluation is necessary, all assets of that class are revalued.

1.5 Financial instruments

Classification

The municipality classifies financial assets and financial liabilities into the following categories:

- Loans and receivables
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

Initial recognition and measurement

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

Accounting Policies

1.5 Financial instruments (continued)

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Regular way purchases of financial assets are accounted for at settlement date.

Subsequent measurement

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

Impairment of financial assets

At each end of the reporting period the municipality assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the municipality, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator of impairment. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in surplus or deficit - is removed from equity as a reclassification adjustment in other comprehensive income and recognised in surplus or deficit.

Impairment losses are recognised in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in surplus or deficit except for equity investments classified as available-for-sale.

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Loans to / (from) economic entities

Loans to economic entities are classified as loans and receivables.

Loans from economic entities are classified as financial liabilities measured at amortised cost.

Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is

Accounting Policies

1.5 **Financial instruments (continued)**

recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

Trade and other payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

Gains and losses

A gain or loss arising from a change in a financial asset or financial liability is recognised as follows:

- A gain or loss on a financial asset or financial liability classified as at fair value through surplus or deficit is recognised in surplus or deficit;
- A gain or loss on an available-for-sale financial asset is recognised directly in net assets, through the statement of changes in net assets, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in net assets is recognised in surplus or deficit; and
- For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

Derecognition

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the municipality retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the municipality has transferred its rights to receive cash flows from the asset and either
  - has transferred substantially all the risks and rewards of the asset, or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the municipality has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the municipality's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the municipality could be required to repay. Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the municipality's continuing involvement is the amount of the transferred asset that the municipality may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the municipality's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Accounting Policies

1.5 Financial instruments (continued)

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in surplus or deficit.

Impairment of financial assets

The municipality assesses at each statement of financial position date whether a financial asset or group of financial assets is impaired.

Assets are carried at amortised cost.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit. The municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

1.6 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Accounting Policies

1.6 Leases (continued)

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.7 Inventories

Inventories are initially measured at cost except where inventories are acquired at no cost, or for nominal consideration, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.8 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation / (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation / (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Accounting Policies

1.8 Impairment of cash-generating assets (continued)

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:
- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

Accounting Policies

1.8 Impairment of cash-generating assets (continued)

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

1.9 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation / (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation / (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a non-cash-generating asset is the present value of the non-cash-generating asset's remaining service potential.

Accounting Policies

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction / (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation / (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation / (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.10 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

Accounting Policies

1.10 Employee benefits (continued)

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the municipality is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

1.11 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Accounting Policies

1.11 Provisions and contingencies (continued)

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding agreement.

After their initial recognition contingent liabilities recognised in business combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 27.

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:
- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount, and account for any impairment loss, in accordance with the amounting policy on impairment of assets as described in accounting policy 1.8 and 1.9.

If the related asset is measured using the revaluation model:
- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
  - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying

1.11 Provisions and contingencies (continued)

amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and

- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

Transitional provision

The municipality changed its accounting policy for provisions, contingent liabilities and contingent assets in 2010. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where provisions, contingent liabilities and contingent assets was acquired through a transfer of functions, the municipality is not required to measure that provisions, contingent liabilities and contingent assets for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2010 and provisions, contingent liabilities and contingent assets has accordingly been recognised at provisional amounts, as disclosed in .

Until such time as the measurement period expires and provisions, contingent liabilities and contingent assets is recognised and measured in accordance with the requirements of the Standard of GRAP on Provisions, contingent liabilities and contingent assets, the municipality need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Provisions, contingent liabilities and contingent assets implies that any associated presentation and disclosure requirements need not be complied with for provisions, contingent liabilities and contingent assets not measured in accordance with the requirements of the Standard of GRAP on Provisions, contingent liabilities and contingent assets.

1.12 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Accounting Policies

1.12 Revenue from exchange transactions (continued)

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by the proportion that costs incurred to date bear to the total estimated costs of the transaction.

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends is recognised when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.13 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Accounting Policies

Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

Fines

Revenue from the issuing of fines is recognised when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

The municipality has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. An estimate is made for the revenue amount collected from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue from summonses is recognised when the public prosecutor pays over to the entity the cash actually collected on summonses issued.

Levies

Levies are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

Levies are based on declarations completed by levy payers. The estimate of levies revenue when a levy payer has not submitted a declaration are based on the following factors:
- the extent and success of procedures to investigate the non-submission of a declaration by defaulting levy payers;
- internal records maintained of historical comparisons of estimated levies with actual levies received from individual levy payers;
- historical information on declarations previously submitted by defaulting levy payers; and
- the accuracy of the database of levy payers as well as the frequency by which it is updated for changes.

Changes to estimates made when more reliable information becomes available are processed as an adjustment to levies revenue.

Government grants

Government grants are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, which-ever is earlier.

Accounting Policies

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

Other grants and donations

Other grants and donations are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

1.14 Turnover

Turnover comprises of sales to customers and service rendered to customers. Turnover is stated at the invoice amount and is exclusive of value added taxation.

1.15 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.16 Borrowing costs

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirements of an entity directly to the nature of the expenditure to be funded i.e. capital or current.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.17 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.18 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.19 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.20 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA is:

(a) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with,
a requirement of this Act, and which has not been condoned in terms of section 170;

(b) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with,
a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act;

(c) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of
the Public Office-Bearers Act, 1998 (Act No. 20 of 1998); or

(d) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with,
a requirement of the supply chain management policy of the municipality or entity or any of the municipality's
by- laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law,

but excludes expenditure by a municipality which falls within the definition of "unauthorised expenditure".

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is lieble in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

1.21 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.22 Presentation of currency

These annual financial statements are presented in South African Rand.

1.23 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP

1.24 Investments

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the Statement of Financial Performance.

Accounting Policies

1.25 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.26 Segmental information

Segmental information on property, plant and equipment, as well as income and expenditure, is set out in Appendices C and D, based on the International Government Financial Statistics classifications and the budget formats prescribed by National Treasury. The municipality operates solely in its area of jurisdiction as determined by the Demarcation Board.

Segment information is prepared in conformity with the accounting policies applied for preparing and presenting the financial statements.

1.27 Research and development expenditure

Research costs are charged against operating surplus as incurred. Development costs are recognised as an expense in the period in which they are incurred unless the following criteria are met:

- The product or process is clearly defined and the costs attributable to the process or product can be separately identified and measured reliably;
- The technical feasibility of the product or process can be demonstrated;
- The existence of a market or, if to be used internally rather than sold, its usefulness to the municipality can be demonstrated;
- Adequate resources exist, or their availability can be demonstrated, to complete the project and then market or use the product or process; and
- The asset must be separately identifiable.

Where development costs are deferred, they are written off on a straight-line basis over the life of the process or product, subject to a maximum of five years. The amortization begins from the commencement of the commercial production of the product or use of the process to which they relate.

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

GRAP 25: Employee benefits

The objective of GRAP25 is to prescribe the accounting and disclosure for employee benefits. The Standard requires an municipality to recognise:

- a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- an expense when an municipality consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

GRAP25 must be applied by an employer in accounting for all employee benefits, except share based payment transactions.

GRAP25 defines, amongst others, the following:

- Employee benefits as all forms of consideration given by an municipality in exchange for service rendered by employees;
- Defined contribution plans as post-employment benefit plans under which an municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods;
- Defined benefit plans as post-employment benefit plans other than defined contribution plans;
- Multi-employer plans as defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that:
  - pool the assets contributed by various entities that are not under common control; and
  - use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the municipality that employs the employees concerned;
- Other long-term employee benefits as employee benefits (other than post-employment benefits and termination benefits) that is not due to be settled within twelve months after the end of the period in which the employees render the related service;
- Post-employment benefits as employee benefits (other than termination benefits) which are payable after the completion of employment;
- Post-employment benefit plans as formal or informal arrangements under which an municipality provides post-employment benefits for one or more employees;
- Short-term employee benefits as employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service;
- State plans as plans other than composite social security programmes established by legislation which operate as if they are multi-employer plans for all entities in economic categories laid down in legislation;
- Termination benefits as employee benefits payable as a result of either:
  - an entity's decision to terminate an employee's employment before the normal retirement date; or
  - an employee's decision to accept voluntary redundancy in exchange for those benefits;
- Vested employee benefits as employee benefits that are not conditional on future employment.

The standard states the recognition, measurement and disclosure requirements of:

- Short-term employee benefits;
  - All short-term employee benefits;
  - Short-term compensated absences;
  - Bonus, incentive and performance related payments;
- Post-employment benefits: Defined contribution plans;
- Other long-term employee benefits;
- Termination benefits.

The standard states Post-employment benefits: Distinction between defined contribution plans and defined benefit plans:

- Multi-employer plans;
- Defined benefit plans where the participating entities are under common control;
- State plans;

2. **New standards and interpretations (continued)**
   - Composite social security programmes;
   - Insured benefits.

The standard states, for Post-employment benefits: Defined benefit plans, the following requirements:
- Recognition and measurement;
- Presentation;
- Disclosure;
- Accounting for the constructive obligation;
- Statement of financial position;
- Asset recognition ceiling;
- Asset recognition ceiling: When a minimum funding requirement may give rise to a liability;
- Statement of financial performance.

The standard prescribes recognition and measurement for:
- Present value of defined benefit obligations and current service cost:
  - Actuarial valuation method;
  - Attributing benefits to periods of service;
  - Actuarial assumptions;
  - Actuarial assumptions: Discount rate;
  - Actuarial assumptions: Salaries, benefits and medical costs;
  - Actuarial gains and losses;
  - Past service cost.
- Plan assets:
  - Fair value of plan assets;
  - Reimbursements;
  - Return on plan assets.

The standard also deals with Entity combinations and Curtailments and settlements.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2011.

The municipality expects to adopt the standard for the first time in the 2012 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 104: Financial Instruments

The standard prescribes recognition, measurement, presentation and disclosure requirements for financial instruments. Financial instruments are defined as those contracts that results in a financial asset in one municipality and a financial liability or residual interest in another municipality. A key distinguishing factor between financial assets and financial liabilities and other assets and liabilities, is that they are settled in cash or by exchanging financial instruments rather than through the provision of goods or services.

One of the key considerations in initially recognising financial instruments is the distinction, by the issuers of those instruments, between financial assets, financial liabilities and residual interests. Financial assets and financial liabilities are distinguished from residual interests because they involve a contractual right or obligation to receive or pay cash or another financial instrument. Residual interests entitle an municipality to a portion of another municipality's net assets in the event of liquidation and, to dividends or similar distributions paid at management's discretion.

In determining whether a financial instrument is a financial asset, financial liability or a residual interest, an municipality considers the substance of the contract and not just the legal form.

Where a single instrument contains both a liability and a residual interest component, the issuer allocates the instrument into its component parts. The issuer recognises the liability component at its fair value and recognises the residual interest as the difference between the carrying amount of the instrument and the fair value of the liability component. No gain or loss is recognised by separating the instrument into its component parts.

Financial assets and financial liabilities are initially recognised at fair value. Where an municipality subsequently measures

2. **New standards and interpretations (continued)**

financial assets and financial liabilities at amortised cost or cost, transactions costs are included in the cost of the asset or liability.

The transaction price usually equals the fair value at initial recognition, except in certain circumstances, for example, where interest free credit is granted or where credit is granted at a below market rate of interest.

Concessionary loans are loans either received by or granted to another municipality on concessionary terms, e.g. at low interest rates and flexible repayment terms. On initial recognition, the fair value of a concessionary loan is the present value of the agreed contractual cash flows, discounted using a market related rate of interest for a similar transaction. The difference between the proceeds either received or paid and the present value of the contractual cash flows is accounted for as non-exchange revenue by the recipient of a concessionary loan in accordance with Standard of GRAP on Revenue from Non-exchange Revenue Transactions (Taxes and Transfers), and using the Framework for the Preparation and Presentation of Financial Statements (usually as an expense) by the grantor of the loan.

Financial assets and financial liabilities are subsequently measured either at fair value or, amortised cost or cost. An municipality measures a financial instrument at fair value if it is:

- a derivative;
- a combined instrument designated at fair value, i.e. an instrument that includes a derivative and a non-derivative host contract;
- held-for-trading;
- a non-derivative instrument with fixed or determinable payments that is designated at initial recognition to be measured at fair value;
- an investment in a residual interest for which fair value can be measured reliably; and
- other instruments that do not meet the definition of financial instruments at amortised cost or cost.

Derivatives are measured at fair value. Combined instruments that include a derivative and non-derivative host contract are accounted for as follows:

- Where an embedded derivative is included in a host contract which is a financial instrument within the scope of this Standard, an entity can designate the entire contract to be measured at fair value or, it can account for the host contract and embedded derivative separately using GRAP 104. An municipality is however required to measure the entire instrument at fair value if the fair value of the derivative cannot be measured reliably.
- Where the host contract is not a financial instrument within the scope of this Standard, the host contract and embedded derivative are accounted for separately using GRAP 104 and the relevant Standard of GRAP.

Financial assets and financial liabilities that are non-derivative instruments with fixed or determinable payments, for example deposits with banks, receivables and payables, are measured at amortised cost. At initial recognition, an municipality can however designate such an instrument to be measured at fair value.

An municipality can only measure investments in residual interests at cost where the fair value of the interest cannot be determined reliably.

Once an municipality has classified a financial asset or a financial liability either at fair value or amortised cost or cost, it is only allowed to reclassify such instruments in limited instances.

An entity derecognises a financial asset, or the specifically identified cash flows of an asset, when:

- the cash flows from the asset expire, are settled or waived;
- significant risks and rewards are transferred to another party; or
- despite having retained significant risks and rewards, an municipality has transferred control of the asset to another municipality.

An municipality derecognises a financial liability when the obligation is extinguished. Exchanges of debt instruments between a borrower and a lender are treated as the extinguishment of an existing liability and the recognition of a new financial liability. Where an municipality modifies the term of an existing financial liability, it is also treated as the extinguishment of an existing liability and the recognition of a new liability.

An municipality cannot offset financial assets and financial liabilities in the statement of financial position unless a legal right of set-off exists, and the parties intend to settle on a net basis.

GRAP 104 requires extensive disclosures on the significance of financial instruments for an municipality's statement of financial position and statement of financial performance, as well as the nature and extent of the risks that an municipality is exposed to as a result of its annual financial statements. Some disclosures, for example the disclosure of fair values for instruments measured at amortised cost or cost and the preparation of a sensitivity analysis, are encouraged rather than

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

required.

GRAP 104 does not prescribe principles for hedge accounting. An municipality is permitted to apply hedge accounting, as long as the principles in IAS 39 are applied.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2011.

The municipality expects to adopt the standard for the first time in the 2012 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

2.2 Standards and Interpretations early adopted

The municipality has not chosen to early adopt any standards and interpretations.

2.3 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2010 or later periods:

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions, states that no comparative segment information need to be presented on initial adoption of this Standard.

Directive 3 - Transitional provisions for high capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have no been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment, recognition requirements of this Standard would not apply to such items until the transitional provision in that Standard expires.

Directive 4 – Transitional provisions for medium and low capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions un the Standard of GRAP on Property, Plant and Equipment and the Standard of GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the transitional provision in that standard expires.

The effective date of the standard is for years beginning on or after 01 April 2011.

The municipality expects to adopt the standard for the first time in the 2012 annual financial statements.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

3. Property, plant and equipment

	2010			2009		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Land	1,957,558	-	1,957,558	-	-	-
Buildings	8,393,083	(1,472,305)	6,920,778	6,683,501	(1,089,594)	5,593,907
Furniture and fixtures	4,118,402	(723,420)	3,394,982	3,544,630	(282,471)	3,262,159
Motor vehicles	6,769,249	(2,522,737)	4,246,512	6,769,249	(1,363,593)	5,405,656
Office equipment	749,953	(317,343)	432,610	361,772	(196,729)	165,043
IT equipment	2,112,999	(1,091,098)	1,021,901	1,550,182	(697,353)	852,829
Infrastructure	167,863,030	(24,232,263)	143,630,767	85,315,444	(16,397,985)	68,917,459
Loose tools	821,729	-	821,729	801,932	-	801,932
Total	**192,786,003**	**(30,359,166)**	**162,426,837**	**105,026,710**	**(20,027,725)**	**84,998,985**

Reconciliation of property, plant and equipment - 2010

	Opening balance	Additions	Depreciation	Total
Land	-	1,957,558	-	1,957,558
Buildings	5,593,907	1,709,581	(382,710)	6,920,778
Furniture and fixtures	3,262,159	573,772	(440,949)	3,394,982
Motor vehicles	5,405,656	287	(1,159,431)	4,246,512
Office equipment	165,043	388,181	(120,614)	432,610
IT equipment	852,829	562,816	(393,744)	1,021,901
Infrastructure	68,917,459	82,549,145	(7,835,837)	143,630,767
Loose tools	801,932	19,797	-	821,729
	84,998,985	**87,761,137**	**(10,333,285)**	**162,426,837**

Reconciliation of property, plant and equipment - 2009

	Opening balance	Additions	Depreciation	Total
Buildings	5,816,538	-	(222,631)	5,593,907
Furniture and fixtures	3,387,745	-	(125,586)	3,262,159
Motor vehicles	534,924	5,548,855	(678,123)	5,405,656
Office equipment	31,253	140,968	(7,178)	165,043
IT equipment	609,372	471,632	(228,175)	852,829
Infrastructure	73,114,557	-	(4,197,098)	68,917,459
Loose tools	-	890,591	(88,659)	801,932
	83,494,389	**7,052,046**	**(5,547,450)**	**84,998,985**

Transitional provisions

Property, plant and equipment recognised at provisional amounts

In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, as disclosed in note certain property, plant and equipment with a carrying value of R 162,426,837 (2009: R 84,998,985) was recognised at provisional amounts. Carrying amounts of property, plant and equipment carried at provisional amounts are as follows:

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

3. Property, plant and equipment (continued)

Due to initial adoption of GRAP 17

Tangible fixed assets	18,796,070	16,081,526
Infrastructure assets	143,630,767	68,917,459

Steps taken to establish the values of property, plant and equipment recognised at provisional amounts due to the initial adoption of GRAP 17, is as follows:

The municiplaity will use the services of an accredible service provider which will assist in determining the valuation of the Property, plan and equipment.

The date at which full compliance with GRAP 17 is expected, is 30 June 2012.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

4. Other asset 1

5. Inventories

Consumable stores	114,220	66,260

Transitional provisions

Inventories recognised at provisional amounts

In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, as disclosed in note , certain inventories with a carrying value of R 114,220 (2009: R 66,260) was recognised at provisional amounts. Carrying amounts of inventories carried at provisional amounts are as follows:

Due to initial adoption of GRAP 12

Consumable goods	114,220	66,260

Steps taken to establish the values of inventories recognised at provisional amounts due to the initial adoption of GRAP 12, is as follows:

The municipality will employ the services of a valuator to accuratly determine the valuation method and valuation of consumables to comply with Grap 12.

The date at which full compliance with GRAP 12 is expected, is 30 June 2012.

6. Trade and other receivables from exchange transactions

Trade debtors	2,669,227	4,324,512
Other debtors #1	804,934	402,467
	3,474,161	**4,726,979**

7. VAT receivable

VAT	11,017,602	13,195,908

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

8. Consumer debtors

Gross balances		
Rates	16,699,714	-
Less: Provision for debt impairment		
Rates	(2,566,229)	-
Net balance		
Rates	14,133,485	-
Rates		
Current (0 -30 days)	1,553,990	-
31 - 60 days	2,057,130	-
61 - 90 days	1,320,768	-
91 - 120 days	1,579,151	-
121 - 365 days	1,311,772	-
> 365 days	6,310,674	-
	14,133,485	-
Reconciliation of debt impairment provision		
Contributions to provision	(2,566,229)	-

Consumer debtors past due but not impaired

Consumer debtors which are less than 3 months past due are not considered to be impaired. At 30 June 2010, R 2,566,229 (2009: R -) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	1,553,990	-
2 months past due	2,057,130	-
3 months past due	1,320,768	-

Consumer debtors impaired

As of 30 June 2010, consumer debtors of R 2,566,229 (2009: R -) were impaired and provided for.

Figures in Rand	2010	2009

9. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	1,453	7,780
Bank balances	65,176,804	52,349,882
	65,178,257	**52,357,662**

The municipality had the following bank accounts

Account number / description	Bank statement balances 30 June 2010	Bank statement balances 30 June 2009	Cash book balances 30 June 2010	Cash book balances 30 June 2009
ABSA Bank - 9113420033	34,234	31,904	34,234	31,904
ABSA Bank - 9087599067	32,660	30,437	32,660	30,437
ABSA Bank - 4069702429	26,265,121	24,984,377	26,265,121	24,984,377
ABSA Bank - 4069702615	16,090,104	10,219,785	16,090,104	10,219,785
ABSA Bank - 4063761912	8,160,127	2,954,508	8,162,956	7,139,175
ABSA Bank - 4050384145	6,474,089	2,602,436	2,588,328	3,660,673
ABSA Bank - 4054362230	11,966,534	15,380,878	11,966,534	1,101,108
Total	**69,022,869**	**56,204,325**	**65,139,937**	**47,167,459**

10. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal Infrastructure Grant	13,650,000	-
Finance Management Grant	42,051	-
Municipal Systems Improvement Grant	13,520	-
	13,705,571	**-**

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note 14 for reconciliation of grants from Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

11. Trade and other payables from exchange transactions

Trade payables	6,198,745	3,251,061
Accrued leave pay	811,234	332,927
Accrued expense	597,992	-
Accruals	10,284,085	-
	17,892,056	**3,583,988**

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

12. Revenue

Property rates	17,956,005	-
Rental of facilities & equipment	-	7,339
Fines	-	3,765,985
Government grants & subsidies	114,621,740	81,179,552
	132,577,745	**84,952,876**

The amount included in revenue arising from exchanges of goods or services are as follows:

Rental of facilities & equipment	-	7,339

The amount included in revenue arising from non-exchange transactions is as follows:

Property rates	17,956,005	-
Fines	-	3,765,985
Government grants & subsidies	114,621,740	81,179,552
	132,577,745	**84,945,537**

13. Property rates

Rates received

Residential	17,956,005	-

Valuations

Residential	214,316,400	-
Commercial	245,338,000	-
State	632,220,000	-
Municipal	15,754,300	-
Social	33,537,000	-
	1,141,165,700	-

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2009. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

The new general valuation will be implemented on 01 July 2013.

Figures in Rand	2010	2009

14. Government grants and subsidies

Equitable share	83,785,936	64,880,722
Municipal Infrastructure Grant	27,924,000	13,475,000
Financial Management Grant	2,179,429	2,475,080
Municipal Systems Improvement Program Grant	732,375	348,750
	114,621,740	**81,179,552**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Municipal Infrastructure Grant

Current-year receipts	27,924,000	13,745,000
Conditions met - transferred to revenue	(27,924,000)	(13,745,000)
2010/11 MIG received in advance	13,650,000	-
	13,650,000	**-**

Conditions still to be met - remain liabilities (see note 10)

Financial Management Grant

Current-year receipts	750,000	500,000
Conditions met - transferred to revenue	(707,949)	(500,000)
	42,051	**-**

Conditions still to be met - remain liabilities (see note 10)

Municipal Systems Improvement Program Grant

Current-year receipts	735,000	735,000
Conditions met - transferred to revenue	(721,480)	(735,000)
	13,520	**-**

Conditions still to be met - remain liabilities (see note 10)

Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

15. Other revenue

Administration and management fees received - third party	5,376,619	3,257,591
Sundry Income - (Major component - Vat Recovery)	566,103	15,743,131
	5,942,722	**19,000,722**

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

16. General expenses

Advertising	1,324,939	2,606,531
Auditors remuneration	1,755,058	144,110
Bank charges	87,015	55,583
Cleaning	208,164	366,722
Commission paid	2,457,172	-
Conferences and seminars	83,018	204,023
Consulting and professional fees	3,222,257	1,925,189
Consumables	753	-
Delivery expenses	5,000	-
Donations	854,126	1,547,734
Electricity	388,555	538,474
Entertainment	85,119	321,836
Fuel and oil	360,551	135,319
IT expenses	170,352	58,221
Insurance	362,350	57,728
Lease rentals on operating lease	149,364	262,595
Marketing	704,565	-
Motor vehicle expenses	329,800	9,697
General expenses	24,217	347,279
Postage and courier	25,269	873
Printing and stationery	790,376	538,214
Promotions and sponsorships	301,634	27,000
Protective clothing	19,453	11,012
Security (Guarding of municipal property)	6,427,607	2,206,918
Stock written off	-	147,493
Subscriptions and membership fees	36	423,636
Telephone and fax	1,169,441	940,228
Training	2,437,715	1,613,952
Travel - local	839,378	763,852
	24,583,284	**15,254,219**

17. Operating surplus

Operating surplus for the year is stated after accounting for the following:

Operating lease charges		
Lease rentals on operating lease - 2		
• Contractual amounts	149,364	262,595
Depreciation on property, plant and equipment	10,332,998	10,004,717
Employee costs	30,139,101	19,830,057

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

18. Employee related costs

Basic	9,260,085	8,639,256
Medical aid - company contributions	384,397	267,278
UIF	57,732	20,778
WCA	233	-
SDL	68,230	-
Leave pay provision charge	506,528	-
Post-employment benefits - Pension - Defined contribution plan	1,766,838	583,572
Overtime payments	68,400	-
Car allowance	1,075,258	-
Housing benefits and allowances	245,243	-
Leave bought out	1,812	-
Audit committee allowance	44,866	34,142
	13,479,622	**9,545,026**

Remuneration of municipal manager

Annual Remuneration including benefits and allowances	815,920	-

Remuneration of chief finance officer

Annual Remuneration including benefits and allowances	528,735	-

Corporate and human resources (corporate services)

Annual Remuneration including benefits and allowances	545,476	-

Health, safety and social services (emergency management services)

Annual Remuneration including benefits and allowances	545,476	-

Procurements and infrastructure (planning, transport and environmental affairs)

Annual Remuneration including benefits and allowances	588,208	-

19. Remuneration of councillors

Councillors	13,635,664	10,285,031

In-kind benefits

National Treasury has provided the municipality with a technical advisor (J. Hewitt) and terminated the service at 30 June 2010.

20. Debt impairment

Contributions to debt impairment provision	2,566,229	-

21. Investment revenue

Interest revenue		
Bank and investments	2,193,884	8,574,693

22. Depreciation and amortisation

Property, plant and equipment	10,332,998	10,004,717

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

23. Auditors' remuneration

Fees	1,755,058	144,110

24. Contracted services

Information Technology Services	243,192	69,553
Specialist Services	31,114	169,950
Other Contractors	2,515,793	-
	2,790,099	**239,503**

25. Grants and subsidies paid

Other subsidies		
Indigent grants	3,468,386	1,140,850

26. Cash generated from operations

Surplus	44,824,181	60,901,940
Adjustments for:		
Depreciation	10,332,998	10,004,717
Debt impairment	2,566,229	-
Prior period errors - non cash movement	28,161,224	-
Changes in working capital:		
Inventories	(47,960)	(66,260)
Trade and other receivables from exchange transactions	1,252,818	(4,726,979)
Consumer debtors	(16,699,714)	-
Trade and other payables from exchange transactions	14,308,079	6,492,199
VAT	2,178,306	(13,195,908)
Unspent conditional grants and receipts	13,705,571	-
	100,581,732	**59,409,709**

27. Contingencies

There is no reimbursement from any third parties for potential obligations of the municipality.

Unfilled conditions and other contingencies attaching to government grants related to agricultural activity.

28. Related parties

Relationships	
Accounting Officers	Refer to accounting officers' report note
Post employment benefit plan for employees of entity and/or other related parties	Municipal Gratuity Fund

29. Risk management

Capital risk management

The municipality's objectives when managing capital are to safeguard the municipality's ability to continue as a going concern in order to provide returns for members and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the municipality consists of debt, which includes the borrowings (excluding derivative financial liabilities) disclosed in notes 9, cash and cash equivalents disclosed in note 9, and equity as disclosed in the statement of financial position.

In order to maintain or adjust the capital structure, the municipality may adjust the amount of dividends paid to members, return capital to members, issue new shares or sell assets to reduce debt.

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

29. Risk management (continued)

This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.

There are no externally imposed capital requirements.

There have been no changes to what the municipality manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

30. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

31. Unauthorised expenditure

The municipality had no unauthorised expenditure for the year under review.

32. Fruitless and wasteful expenditure

The municipality had nofruitless and wasteful expenditure for the year under review.

33. Reconciliation between budget and statement of financial performance

Reconciliation of budget surplus/deficit with the surplus/deficit in the statement of financial performance:

	2010	2009
Net surplus per the statement of financial performance	44,824,175	-
Adjusted for:		
Property rates	(11,856,005)	-
Administration and management fees received	(2,376,619)	-
Interest received (Investments)	73,741	-
Other income	8,663,897	-
Government grants and subsidies	4,621,635	-
Remuneration of councillors	(191,137)	-
Contracted Services	2,233,275	-

Notes to the Annual Financial Statements

Figures in Rand	2010	2009
Other grants	-	-
Interest received (Investments)	73,741	-
Personnel	(6,306,100)	-
Administration	(357,305)	-
Depreciation	10,231,151	-
Finance cost	-	-
Debt impairment	2,566,229	-
Repairs and maintenance - General	(33,245,360)	-
Bulk purchases	-	-
Grants and subsidies paid	248,386	-
General expenses	(1,870,386)	-
Net surplus per approved budget	46,066,703	6,304,172

34. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

Amount paid - previous years	1,755,058	-

Pension and Medical Aid Deductions

Current year subscription / fee	1,766,837	583,572
Amount paid - current year	(1,766,837)	(583,572)
	-	-

VAT

VAT receivable	11,017,602	13,195,908

VAT output payables and VAT input receivables are shown in note .

All VAT returns have been submitted by the due date throughout the year.

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the City Manager and noted by Council. There were no deviations for the current year.

35. Actual operating expenditure versus budgeted operating expenditure

Refer to Appendix D for the comparison of actual operating expenditure versus budgeted expenditure.
Appendix B: Analysis of property, plant and equipment

Makhuduthamaga local municipality
Makhuduthamaga local municipality
Appendix B
June 2010

Analysis of property, plant and equipment as at 30 June 2010

	Cost/Revaluation						Accumulated depreciation					
	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Closing Balance Rand	Carrying value Rand
Infrastructure												
Buildings and grouped infrastructure	68,917,459	82,549,145	-	-	-	151,466,604	-	-	-	(7,835,837)	(7,835,837)	143,630,767
	68,917,459	82,549,145	-	-	-	151,466,604	-	-	-	(7,835,837)	(7,835,837)	143,630,767
Other assets												
Land	-	1,957,558	-	-	-	1,957,558	-	-	-	-	-	1,957,558
Buildings	5,593,907	1,709,581	-	-	-	7,303,488	-	-	-	(382,710)	(382,710)	8,920,778
Furniture and fittings	3,262,159	573,772	-	-	-	3,835,931	-	-	-	(440,949)	(440,949)	3,384,982
Motor Vehicles	5,405,656	287	-	-	-	5,405,943	-	-	-	(1,159,431)	(1,159,431)	4,246,512
Office Equipment	165,043	388,181	-	-	-	553,224	-	-	-	(120,814)	(120,614)	432,810
IT Equipment	852,829	562,816	-	-	-	1,415,645	-	-	-	(383,744)	(393,744)	1,021,901
Loose tools	801,932	19,797	-	-	-	821,729	-	-	-	-	-	821,729
	16,081,526	5,211,992	-	-	-	21,293,518	-	-	-	(2,497,448)	(2,497,448)	18,796,070
Total												
Infrastructure	68,817,459	82,549,145	-	-	-	151,466,604	-	-	-	(7,835,837)	(7,835,837)	143,630,767
Other assets	16,081,526	5,211,992	-	-	-	21,293,518	-	-	-	(2,497,448)	(2,497,448)	18,798,070
	84,998,985	87,761,137	-	-	-	172,760,122	-	-	-	(10,333,285)	(10,333,285)	162,426,837

Supplementary information

Appendix C: Segmental analysis of property, plant and equipment

Makhuduthamaga local municipality
Appendix C
June 2010

Segmental analysis of property, plant and equipment as at 30 June 2010

	Cost/Revaluation							Accumulated Depreciation						
	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment deficit Rand	Closing Balance Rand	Carrying value Rand
Municipality														
Finance & Admin/Finance	192,597	-	-	-	-	-	192,597	(30,359)	-	-	-	-	(30,359)	162,238
Planning and Development/Economic Development/Plan	-	189	-	-	-	-	189	-	-	-	-	-	-	189
	192,597	189	-	-	-	-	192,786	(30,359)	-	-	-	-	(30,359)	162,427
Municipal Owned Entities														
Total														
Municipality	192,597	189	-	-	-	-	192,786	(30,359)	-	-	-	-	(30,359)	162,427
	192,597	189	-	-	-	-	192,786	(30,359)	-	-	-	-	(30,359)	162,427

Supplementary information

Appendix D: Segmental Statement of Financial Performance

Makhuduthamaga local municipality
Appendix C
June 2010

Segmental Statement of Financial Performance for the year ended

Prior Year Actual Income Rand	Prior Year Actual Expenditure Rand	Prior Year Surplus /(Deficit) Rand		Current Year Actual Income Rand	Current Year Actual Expenditure Rand	Current Year Surplus /(Deficit) Rand
			Municipality			
-	18,655,919	(18,655,919)	Executive & Council/Mayor and Council	3,499	24,930,328	(24,926,829)
112,528,290	27,330,253	85,198,037	Finance & Admin/Finance	140,710,851	59,796,887	80,913,964
-	889,280	(889,280)	Planning and Development/Economic Development/Plan	-	1,562,275	(1,562,275)
-	1,994,636	(1,994,636)	Comm. & Social/Libraries and archives	-	3,624,273	(3,624,273)
-	1,726,331	(1,726,331)	Housing	-	3,817,791	(3,817,791)
-	774,187	(774,187)	Public Safety/Police	-	1,658,995	(1,658,995)
-	28,750	(28,750)	Environmental Protection/Pollution Control	-	263,347	(263,347)
-	11,947	(11,947)	Waste Water Management/Sewerage	-	21,639	(21,639)
-	215,047	(215,047)	Water/Water Distribution	-	259,501	(259,501)
112,528,290	**51,626,350**	**60,901,940**		**140,714,350**	**95,935,036**	**44,779,314**
			Municipal Owned Entities			
			Other charges			

Supplementary information

Appendix E(1): Actual versus Budget (Revenue and Expenditure)

Makhuduthamaga local municipality

Appendix D(1)

June 2010

Actual versus Budget(Revenue and Expenditure) for the year ended 30 June 2010

Prior Year # 1 2009 Act. Adj. Bal. Rand	Prior Year # 1 2009 Bud. Amt Rand	Variance Rand	Var		Current year 2010 Act. Adj. Bal. Rand	Current year 2010 Bud. Amt Rand	Variance Rand	Var
				Revenue				
-	11,000,000	(11,000,000)	(100.0)	Property rates	17,956,005	6,100,000	11,856,005	194.4
7,339	-	7,339	-	Rental of facilities and equipment	-	-	-	-
3,765,985	-	3,765,985	-	Fines	-	-	-	-
81,179,552	82,083,000	(903,448)	(1.1)	Government grants & subsidies	114,621,740	119,243,375	(4,621,635)	(3.9)
3,257,591	2,700,000	557,591	20.7	Administration and management fees received	5,376,619	3,000,000	2,376,619	79.2
15,743,131	2,020,000	13,723,131	679.4	Other Income	566,103	9,230,000	(8,663,897)	(93.9)
8,574,693	3,800,000	4,774,693	125.6	Interest received - investment	2,193,884	2,267,625	(73,741)	(3.3)
112,528,291	101,603,000	10,925,291	10.8		140,714,351	139,841,000	873,351	0.6
				Expenses				
(9,545,025)	(19,324,142)	9,779,117	(50.6)	Personnel	(16,503,437)	(22,809,537)	6,306,100	(27.6)
(10,285,031)	(10,962,435)	677,404	(6.2)	Remuneration of councillors	(13,635,664)	(13,826,801)	191,137	(1.4)
(970,761)	(2,145,500)	1,174,739	(54.8)	Administration	(5,140,509)	(5,497,814)	357,305	(6.5)
(10,004,717)	-	(10,004,717)	-	Depreciation	(10,332,998)	(101,847)	(10,231,151)	045.6
-	-	-	-	Debt impairment	(2,566,229)	-	(2,566,229)	-
(4,186,244)	(6,096,642)	1,910,398	(31.3)	Repairs and maintenance - General	(16,869,564)	(50,114,924)	33,245,360	(66.3)
(239,503)	(1,096,000)	856,497	(78.1)	Contracted Services	(2,790,100)	(556,825)	(2,233,275)	401.1
(1,140,850)	(1,500,000)	359,150	(23.9)	Grants and subsidies paid	(3,468,386)	(3,220,000)	(248,386)	7.7
(15,254,218)	(15,231,048)	(23,170)	0.2	General Expenses	(24,583,289)	(26,453,675)	1,870,386	(7.1)
(51,626,349)	(56,355,767)	4,729,418	(8.4)		(95,890,176)	(122,581,423)	26,691,247	(21.8)
60,901,942	45,247,233	15,654,709	34.6	Net surplus/ (deficit) for the year	44,824,175	17,259,577	27,564,598	159.7

Actual versus Budget(Revenue and Expenditure) for the year ended 30 June 2010

Prior Year # 1 2009 Act. Adj. Bal.	Prior Year # 1 2009 Bud. Amt	Variance		Current year 2010 Act. Adj. Bal.	Current year 2010 Bud. Amt	Variance	

Supplementary information

Appendix F: Disclosure of grants and subsidies in terms of the Municipal Finance Management Act

Makhuduthamaga local municipality
Appendix E for the ended 30 June 2010
DISCLOSURES OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA, 56 OF 2003
June 2010

Name of Grants	Name of organ of state or municipal entity	Quarterly Receipts				Quarterly Expenditure				Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act	Reason for noncompliance
		Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Yes/ No	
Financial Management Grant (FMG)	National Treasury	1,500,000	-	-	-	612,359	406,194	293,519	145,876	Yes	N/A
Municipal Systems Improvement Programme Grant (MSIG)	National Treasury	735,000	-	-	-	180,830	321,750	-	218,900	Yes	N/A
Municipality Infrastructure Grant (MIG)	National Treasury	23,557,000	867,000	3,500,000	-	9,897,420	11,218,791	3,524,408	3,283,381	Yes	N/A
		25,792,000	867,000	3,500,000	-	10,690,609	11,946,735	3,817,927	3,648,157		